Westpac

Westpac Banking Corporation
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Mr John Hawkins
Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Per email: economics.sen@aph.gov.au

Dear Mr Hawkins

Inquiry into Aspects of Bank Mergers

Westpac Banking Corporation (Westpac) welcomes the opportunity to make this submission to the Senate Standing Committee on Economics' Inquiry into Aspects of Bank Mergers.

It should be noted that Westpac fully supports the submission of the Australian Bankers' Association (ABA), which covers in detail each of the Inquiry's general terms of reference.

Westpac confines comments in this submission to providing additional detail for the Committee relating to the recent merger between Westpac and St.George Bank Limited (St.George).

As a general comment, Westpac believes that recent consolidation in Australia's financial services sector should be viewed in light of the global financial crisis, which has resulted in fundamental structural change in the banking sector internationally over the past 12 months.

Up to now, Australia's financial services industry has experienced a relatively small amount of change relative to other international jurisdictions, though there has clearly been an impetus for consolidation in the sector to withstand the financial crisis with the least impact to investors and consumers.

Any forecast for the future of the banking industry is reliant on the core assumption around the pricing of risk that will be made by the credit markets. Westpac's view is that while the extreme caution and risk aversion currently being shown will dissipate over time; it is unlikely we will again see small distribution businesses being able to access capital at a price within 5-10 basis points of AA-regulated banks. On this assumption, some financial services providers may need to adjust their business models in order to be sustainable in the future.

MERGER BETWEEN WESTPAC AND ST.GEORGE

The following information is aimed to provide some context for the Committee in discussing terms of reference (a), (b) and (e) as they relate to the Westpac and St.George merger.

1 Background

On 13 November 2008, St.George shareholders approved a proposal for the merger of Westpac and St.George. Approximately 95% of the votes cast at the shareholder meeting were in favour of the proposal, an overwhelmingly positive response. The merger was formally completed on 1 December 2008 with the Share Scheme coming into effect on this date.

2 Key aspects of the merger model

Maintaining both brands and distribution networks
Recognising that St.George is a highly respected brand that has been built over many years of service to customers, it was essential from the outset that the operating model for the merged entity preserved the St.George suite of brands including Asgard and BankSA. Separate St.George and Westpac branch networks and customer relationships will be maintained.

When the intention to merge was announced in May 2008, the CEO of Westpac also announced details of this model and that there would be no net branch closures. Continuing to invest in separate Westpac and St.George brands and branch networks is considered critical to the future success of the merger.

Stronger together
The merger of Westpac and St.George created a stronger entity, with an AA credit rating, a strong capital position, a larger balance sheet and improved access to international funding markets. The strength of the combined entity provides enhanced confidence in the merged group's ability to withstand challenges and systemic shocks, such as the current global financial crisis, than they would if Westpac and St.George were operating on their own.

Customer benefits
From a day-to-day banking perspective, there has been minimal immediate change for customers as the intention is to preserve existing banking relationships in a 'business as usual' fashion, indeed with a stronger bank. This means that our St.George customers continue to bank with the staff who they know in their local St.George branches and our Westpac customers continue their relationships with Westpac branch staff. Over time, customers will benefit from the improvements in our operational capabilities and a more extensive product and service suite arising from merged operational and head office functions.

Additionally, a significant day-one benefit to customers of being part of a larger merged company was the undertaking made in May 2008, when the merger was first announced, that there would be no foreign ATM fees for customers of either bank to use the other bank's ATM network. This benefit has been very well received by customers who now have access to a larger national network of ATMs

3 Government and Regulatory Approvals

There has been some commentary regarding market consolidation and the impact this may have on consumers and the community. While these concerns are understood and are reflected in commitments we have made for the Westpac and St.George merger model, it should be recognised that these concerns also feature prominently in the existing regulatory processes and approvals that currently apply to any proposed merger.

3.1 ACCC's competition assessment

After extensive consideration on price, quality and availability of service, including a comprehensive review of the proposed acquisition and market inquiries with a range of interested parties, on 13 August 2008 the Australian Competition and Consumer Commission (ACCC) announced that:

> *'the proposed acquisition of St George by Westpac is unlikely to substantially lessen competition under section 50 of the Trade Practices Act 1974 in the markets in which they compete.'*

In its decision, the ACCC did not impose any conditions on the proposed merger.

Further, detailing its decision not to oppose the Westpac and St. George merger, in its Public Competition Assessment, the ACCC concluded that:

> *'...the level of aggregation arising from this transaction is relatively limited and a number of competitors — the other three majors, regional banks, credit unions and building societies, and other niche players — will pose a constraint on the merged entity post-acquisition. Further, while St George is competitive in terms of price and customer service, it does not appear to be unique or a market leader in either attribute.'*

3.2 Treasurer's Approval

The Treasurer announced on 23 October 2008 the approval of the merger, with conditions, under the Financial Sector (Shareholdings) Act 1998. The Treasurer stated:

> *'This decision follows a thorough assessment of its impact on the national interest, including factors such as competition, economic efficiency, prudential requirements, financial system stability, community banking needs and the impact on Westpac and St.George customers'.*

Ten conditions were imposed by the Treasurer, as follows:

1. Maintain (in net terms) branches and ATMs at the respective numbers existing as at the Share Scheme Implementation Date, including by maintaining (in net terms) branch and ATM numbers in areas outside of major urban centres;
2. Remove foreign ATM fees for Westpac customers using St George ATMs and vice-versa;
3. Continue to provide a comprehensive range of affordable banking products to low-income consumers and other members of the community with special needs;
4. Retain all Westpac and St George retail banking brands including Bank SA;
5. Maintain dedicated management teams for St George and Westpac retail banking distribution; and
6. Retain a corporate presence in Kogarah.
7. Maximise internal redeployment opportunities available for affected staff, support external job placement where employee redundancies occur, and ensure that staff affected by the merger have timely access to their full entitlements under Westpac and St George retrenchment arrangements;
8. Work with consumer advocates and community stakeholders to minimise community concerns about the merger and its impact on customers and the community, and address any concerns as sensitively and quickly as possible;
9. Work through the implications for employees as quickly and sensitively as possible, in consultation with employees, the Finance Sector Union and other affected stakeholders; and
10. Provide specialist resources to assist staff affected by the merger.

Conditions 1-6 are for a period of three years and the remaining conditions apply during the transition phase of merging the two banks.

3.3 Complying with the Conditions specified by the Treasurer

Westpac will adhere to the Government's merger conditions as we adhere to all of our other legal and regulatory obligations. We will report to the Government against the conditions on a regular basis throughout the designated three-year period.

4 Employment Impacts of the merger

We understand that the Committee will be interested in the likely impact on employee numbers as a result of the merger. Given that we are only weeks into the transition to a fully merged entity, it is premature at this early stage to provide the Committee with any details. It is expected that it will be some months before we have completed the work necessary to have an accurate picture of the final operating model and the impacts on our employee numbers.

We have made commitments, also reflected in the Treasurer's conditions 1 and 4, that we will maintain (in net terms) branches and ATMs and that we will retain all Westpac and St George retail banking brands including Bank SA. This means that branch employees from St.George, BankSA and Westpac will not be affected by the merger as the distribution networks will continue.

We have also made strong commitments to work through the implications of the merger as quickly and sensitively as possible and in consultation with employees and the Finance Sector Union.

Where employees' roles are impacted by integration, we aim to find alternative employment within the group for as many displaced employees as possible. Westpac has a very good track record of helping employees to transition from roles impacted by changes in the company. In cases where we cannot find an alternative role for a displaced employee, then we offer them the services of a specialist outplacement provider at Westpac expense.

Retrenchment arrangements for all Westpac and Enterprise Agreement covered St.George/Bank SA employees include six weeks notice (or pay in lieu) and severance of seven weeks pay for an employee's first year of service. Thereafter, St George pays a minimum of four weeks per year for two to ten years service, three weeks per year for ten to 17 years service and two weeks per year for 17 plus years. Total severance is capped at 79 weeks plus the six weeks notice. Westpac pays three weeks per year from the second year of service with total severance capped at 90 weeks plus six weeks notice. More highly paid (Non Enterprise Agreement) StGeorge/Bank SA employees are paid severance in accordance with relevant policies or their contractual entitlements. Employees generally receive their full entitlements in the pay day falling immediately after they have completed relevant paperwork and leave the company.

Should you have any questions in relation to the issues canvassed in this submission, please contact me on 02 8253 3138 or at vsomlyay@westpac.com.au

Yours sincerely

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